

CITY OF PELLA, IOWA

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2007



**CITY OF PELLA, IOWA**  
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**CITY OF PELLA, IOWA**

**CITY OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January, 2007)</b>		
Darrell D. Dobernecker	Mayor	January, 2008
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2010
Richard Slings	Council Member	January, 2008
Richard Savery	Council Member	January, 2008
James Mueller	Council Member	January, 2008
Bruce Schiebout	Council Member	January, 2010
Dan Vander Beek	Council Member	January, 2010
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2008
Ronda Brown	City Clerk	January, 2008
<b>(After January, 2007)</b>		
Darrell D. Dobernecker	Mayor	January, 2008
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2010
Richard Slings	Council Member	January, 2008
Richard Savery	Council Member	January, 2008
James Mueller	Council Member	January, 2008
Bruce Schiebout	Council Member	January, 2010
Dan Vander Beek	Council Member	January, 2010
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2008
Ronda Brown	City Clerk	January, 2008

**Van Maanen  
& ASSOCIATES, P.C.**

**Certified Public Accountants**

705 Main St.  
Pella, IA 50219  
641-628-3737

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pella's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Pella as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Governmental Auditing Standards, we have also issued our report dated November 12, 2007 on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 54 through 57 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

November 12, 2007

## **CITY OF PELLA, IOWA**

### **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007**

The City of Pella provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

#### ***2007 FINANCIAL HIGHLIGHTS***

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$85,352,418 (net assets).
- The assets of the City's governmental activities exceeded liabilities by \$31,896,958.
- Assets of business type activities exceeded liabilities by \$53,455,460.
- The revenues of the governmental activities exceeded expenses by \$2,189,343.
- Within the City's business-type activities, revenues exceeded expenses by 1,988,265. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2007 the general fund had an unrestricted fund balance of \$1,760,358 or working capital of nearly 46% of annual expenditures.

#### ***OVERVIEW OF THE FINANCIAL STATEMENTS***

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

##### ***Government-wide financial statements***

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

***The government-wide financial statements are divided into two categories:***

***Governmental activities*** - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

***Business type activities*** - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

***Governmental funds*** are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decision. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue-road use tax fund, debt service fund, and capital project fund, all of which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

***Proprietary funds*** can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Data from these funds are combined into a single, aggregated presentation. Individual fund data for each of these funds is provided in the form of combining statements elsewhere in the report. Internal Service funds are accounting devices used to



accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

*Notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$85,352,418 at the close of the most recent fiscal year. As noted in footnote #19, GASB 34 was implemented during the year ended June 30, 2003. At that time, the City adopted the optional method to restate the beginning net assets to recognize the infrastructure assets as of July 1, 2006. On that date, capital assets, net of accumulated depreciation, were added in the amount of \$11,713,505.

The most significant portion of the city's net assets (78.98%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending.

#### **CITY OF PELLA'S NET ASSETS**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Current and other assets	\$ 10,079,956	8,267,909	15,918,251	20,730,149	25,998,207	28,998,058
Capital assets	37,123,852	24,305,749	66,001,179	60,198,423	103,125,031	84,504,172
Total assets	47,203,808	32,573,658	81,919,430	80,928,572	129,123,238	113,502,230
Current Liabilities	6,950,188	4,935,837	3,791,878	3,365,540	10,742,066	8,301,377
Long-term liabilities	8,356,662	9,643,711	24,672,092	26,622,230	33,028,754	36,265,941
Total Liabilities	15,306,850	14,579,548	28,463,970	29,987,770	43,770,820	44,567,318
Net assets:						
Invested in capital assets, net of related debt	28,052,647	13,924,842	39,354,714	31,828,895	67,407,361	45,753,737
Restricted assets	2,027,783	2,214,639	4,489,761	6,829,780	6,517,544	9,044,419
Unrestricted assets	1,816,528	1,854,629	9,610,985	12,282,127	11,427,513	14,136,756
Total net assets	\$ 31,896,958	17,994,110	53,455,460	50,940,802	85,352,418	68,934,912

A portion of the City's net assets (7.64%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets or the unrestricted net assets of \$11,427,513 may be used to meet the City's ongoing obligations to citizens and creditors.

## *Analysis of Changes in Net Assets*

	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
Charges for service	\$ 511,214	558,676	19,220,522	18,766,349	19,731,736	19,325,025
Operating grants, contributions	1,071,252	1,023,197	-	-	1,071,252	1,023,197
Capital grants, contributions	238,015	106,578	130,110	-	368,125	106,578
Property taxes	2,792,009	2,778,762	-	-	2,792,009	2,778,762
Local option taxes	984,332	1,000,702	-	-	984,332	1,000,702
TIF	1,867,289	1,675,567	-	-	1,867,289	1,675,567
Other Taxes	543,830	394,645	-	-	543,830	394,645
Grants & contributions	37,948	32,514	-	-	37,948	32,514
Payment in lieu of taxes	470,198	463,108	-	-	470,198	463,108
Investment earnings	135,482	114,872	765,336	667,990	900,818	782,862
Miscellaneous	-	-	106,940	129,425	106,940	129,425
Gain on sale of assets	-	(5,136)	39,642	14,252	39,642	9,116
Contributions to permanent fund	-	-	-	-	-	-
Transfers	19,356	(100,962)	(19,356)	100,962	-	-
Total revenues	8,670,925	8,042,523	20,243,194	19,678,978	28,914,119	27,721,501
<b>Expenses</b>						
General government	503,892	300,600	-	-	503,892	300,600
Public Safety	1,524,409	1,569,346	-	-	1,524,409	1,569,346
Public Works	1,640,540	1,180,674	-	-	1,640,540	1,180,674
Culture & Recreation	1,863,688	1,778,801	-	-	1,863,688	1,778,801
Community & Economic Development	541,534	506,050	-	-	541,534	506,050
Facilities & Acquisition	(30,887)	169,580	-	-	(30,887)	169,580
Long-term debt and interest cost	438,406	541,131	-	-	438,406	541,131
Water	-	-	2,017,309	1,740,688	2,017,309	1,740,688
Wastewater	-	-	2,099,812	1,901,232	2,099,812	1,901,232
Sanitation	-	-	477,373	409,864	477,373	409,864
Electric	-	-	13,660,435	13,966,897	13,660,435	13,966,897
Internal Service	-	-	-	-	-	-
Total expenses	6,481,582	6,046,182	18,254,929	18,018,681	24,736,511	24,064,863
Change in net assets	\$ 2,189,343	1,996,341	1,988,265	1,660,297	4,177,608	3,656,638

## **FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS**

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$3,866,696 at June 30, 2007. This was a decrease of \$139,934 from the prior year and was due to planned capital expenditures using cash reserves. A summary of each of the government major fund balances is as follows:

### ***General Fund***

The general fund's balance increased by \$6,531 in Fiscal Year 2007. As a result, our fund balance increased to \$1,760,358 which represents approximately 46% of annual expenditures, and exceeds the City's target range of 30% to 40%.

### ***Debt Service Fund***

The debt service fund's balance of \$38,270 can be utilized to offset future general obligation principal and interest payments. During the year the fund balance decreased by \$37,225, which was a planned drawdown of the fund balance.

### ***Road Use Tax Fund***

The Road Use Tax Fund had a balance of \$571,373 at June 30, 2007. However, \$291,509 of this balance is a receivable due from the Pella Business Corridor TIF Fund, and will be repaid as development occurs in the TIF district. During the year the fund balance decreased by \$426,931, which was a planned draw down.

### ***Capital Projects Funds***

The capital project funds are comprised of two main funds and six smaller funds which are as follows:

***Capital Facilities Fund*** had a fund balance of \$390,612 at June 30, 2007. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund. However, the fund balance is also available to supplement any capital purchases made by the General Fund.

***Library Building Fund*** had a fund balance of \$48,183 at June 30, 2007.

***Other Capital Facility Funds*** had a total fund balance of \$0 at June 30, 2007.

### ***Proprietary Funds***

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

The combined net assets of the enterprise funds at June 30, 2007 totaled \$53,455,460 of which \$9,610,985 is unrestricted. Overall, net assets for enterprise funds increased by \$1,988,265, which is an increase of 3.86% over the 2006 net assets of \$51,467,195.

The net assets of internal service funds, which is comprised mainly of the City's health insurance trust fund decreased from \$626,716 to \$591,278. The reason for a majority of the decrease was due to higher than expected claims for the year.

## ***BUDGETARY HIGHLIGHTS***

The FY 07 budget was amended on December 5, 2006 for the following reasons:

- The FY 06-07 Budget contained estimated totals for the Electric Utility that were based on the FY 05-06 Budget. The reason we used estimated totals is because we conduct a separate budget session for the utility after Council formally approves the regular city budget. The separate session is needed so Council can provide more attention to the Electric Utility and it also gives staff additional time to form estimates, which enhances the reliability of the budget numbers. Therefore, this amendment is simply adjusting the FY 06-07 Budget to include the electric budget that was approved by Council on July 5, 2006. This request contains revenue increases of \$970,316 and expenditure increases of \$2,068,016.
- Revenues and expenditures increased \$58,690 for the Solid Waste Contract.
- Expenditures were increased \$139,904 for the University Street Water Main Replacement.
- Expenditures were increased \$171,680 for the University Street Extension.
- Expenditures were increased \$150,000 for Emergency Repairs to the Jordan Well.
- Expenditures were increased \$50,000 for Feasibility and Traffic Studies.
- The remaining \$608,345 in expenditure increases were due to small projects and items previously budgeted in the FY 05-06 budget but the expenses were not incurred until FY 06-07. Therefore, the majority of this request is a carryover of funds from one budget year to the next.

None of the above variations are expected to have a significant effect on future services or liquidity.

## ***CAPITAL ASSETS***

### ***Capital Assets***

Major construction projects and associated expenses for the year included the following:

#### ***Governmental Activities***

Extending the Volksweg Trail \$123,058

Construction of a new Lazy River for our aquatic center \$582,351

Extension of University Street for the New Madison Elementary School \$135,510

Widening Washington Street to three lanes \$131,697

#### ***Water Fund***

University St. Main Replacement \$130,360

#### ***Electric Fund***

Construction cost for ownership share of Council Bluffs 4 (CB 4) \$6,741,494

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

## ***DEBT ADMINISTRATION***

At the close of fiscal year ended June 30, 2007, the City had bonds outstanding of \$36,064,000. This included new issues of \$2,540,000 which were issued for the following purposes:

***2007 Water Revenue Refunding Bonds for \$2,540,000*** - The purpose of this issue was to refund the 1995 Water Revenue Bonds for a savings of \$173,000.

The City maintains an A2 rating from Moody's Investor Services on all its general obligation debt and electric revenue debt. The latest water revenue bond obtained an initial rating of A3.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2005. The current general obligation debt limitation for the City is \$27,674,423 and at June 30, 2007 there was \$10,595,000 of outstanding general obligation debt. Therefore the city's available debt margin is \$17,079,423 or 61.72%.

## ***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

The rebound of the national economy has had a positive impact on the City of Pella. The rebound has been most beneficial in utility revenues, sales tax, and hotel/motel tax. However, we will continue to struggle with stagnant taxable property valuations in FY 08. This is due in large part to the state 'rollback' valuation system in which the taxable valuation of residential property is linked to agriculture property. As a result, allowable growth for residential property cannot exceed agriculture property. The problem lies in the fact that 64% of our property valuations are residential. Furthermore agricultural property has been in a slump over the last decade. As a result, general fund taxable property valuations have been relatively stagnant over the last four years, which has resulted in a leveling off of property tax revenue.

At the state level, where revenues are more closely tied to the national economy, annual collections have meet growth projections. As a result, the State of Iowa did not cut funding to local governments in fiscal year 2008. We also do not expect any funding cuts in the present fiscal year.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2008 Budget:

### ***Property Taxes***

The City was able to maintain its property tax rate in Fiscal Year 2007 at \$10.20/\$1,000 of taxable valuation. In addition, there will be no change in the rate for Fiscal Year 2008.

### ***Electric Rates***

There has not been an electrical rate increase since 1996. In addition it appears the City will be able to finance our share of the new 790 Megawatt power plant in Council Bluffs without increasing rates. The total cost of the project is estimated at \$16.8 million dollars and we will utilize both cash on hand and revenue debt to pay for the construction costs.

The dilemma the City faces in future years is costs to meet the new clean air requirements by the Environmental Protection Agency. Therefore it is very likely that the City will need to increase rates to meet compliance standards by 2009.

### ***Water Rates***

For Fiscal Year 2007 there was no increase in water rates and we do not foresee a rate adjustment in Fiscal Year 2008. However, it is likely rates will need to be adjusted in the future to pay for source water improvements.

### ***Waste Water Rates***

For Fiscal Year 2007 there was no increase in waste water rates. In addition there will be no increases in Fiscal Year 2008 as well.

### ***Requests for Information***

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the City Administrator, 825 Broadway Street, Pella, Iowa 50219.

## **Financial Statements**

CITY OF PELLA, IOWA  
STATEMENT OF NET ASSETS  
June 30, 2007

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,873,424	8,475,273	11,348,697
Receivables:			
Property tax:			
Delinquent	21,601	-	21,601
Succeeding year	2,861,199	-	2,861,199
Tax increment financing:			
Delinquent	6,702	-	6,702
Succeeding year	1,979,039	-	1,979,039
Local option	188,874	-	188,874
Accounts (net of allowance for uncollectibles)	21,838	1,786,784	1,808,622
Accrued interest	34,639	135,078	169,717
Due from other governments	64,567	-	64,567
Inventories	-	939,470	939,470
Prepaid expenses	290	91,885	92,175
Restricted assets:			
Cash and pooled investments	2,027,783	4,489,761	6,517,544
Deferred charge (issuance costs)	-	231,406	231,406
Capital assets(net of accumulated depreciation)	37,123,852	65,769,773	102,893,625
<b>Total assets</b>	<b>47,203,808</b>	<b>81,919,430</b>	<b>129,123,238</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	453,579	1,417,601	1,871,180
Salaries and benefits payable	175,438	114,440	289,878
Deposits	-	73,313	73,313
Accrued interest payable	33,206	90,629	123,835
Deferred revenue:			
Succeeding year property tax	2,861,199	-	2,861,199
Succeeding year tax increment financing	1,979,039	-	1,979,039
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	1,295,000	115,000	1,410,000
Revenue bonds payable	-	1,813,000	1,813,000
Compensated absences	152,727	167,895	320,622
Portion due or payable after one year:			
General obligation bonds (net of unamortized discounts)	8,215,000	961,427	9,176,427
Revenue bonds payable (net of unamortized discounts)	-	23,525,632	23,525,632
Compensated absences	141,662	185,033	326,695
<b>Total liabilities</b>	<b>15,306,850</b>	<b>28,463,970</b>	<b>43,770,820</b>



CITY OF PELLA, IOWA  
STATEMENT OF NET ASSETS  
June 30, 2007

*Continued from previous page.*

**Net Assets**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Invested in capital assets, net of related debt	28,052,647	39,354,714	67,407,361
Restricted for:			
Debt service and improvements	5,064	4,416,448	4,421,512
Special Purposes	1,882,719	-	1,882,719
Permanent Trust	140,000	-	140,000
Other	-	73,313	73,313
Unrestricted	1,816,528	9,610,985	11,427,513
<b>Total net assets</b>	<b>\$ 31,896,958</b>	<b>53,455,460</b>	<b>85,352,418</b>

See notes to financial statements.

## Exhibit B

CITY OF PELLA, IOWA  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2007

Functions/Programs	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
Governmental activities:				
Public safety	\$ 1,524,409	94,259	63,960	-
Public works	1,640,540	23,958	883,767	-
Culture and recreation	1,863,688	324,210	123,525	-
Community and economic development	541,534	3,195	-	-
General government	503,892	65,592	-	-
Long-term debt costs and interest	438,406	-	-	-
Facilities and acquisition	(30,887)	-	-	238,015
Total governmental activities	6,481,582	511,214	1,071,252	238,015
Business type activities:				
Water	2,017,309	1,920,887	-	92,682
Wastewater	2,099,812	1,469,779	-	37,428
Sanitation	477,373	514,505	-	-
Electric	13,660,435	15,315,351	-	-
Total business type activities	18,254,929	19,220,522	-	130,110
Total primary government	\$ 24,736,511	19,731,736	1,071,252	368,125
General Revenues:				
Taxes:				
Property taxes				
Local option tax				
Tax increment financing				
Other taxes				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain on sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year, as restated				
Net assets end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,366,190)	-	(1,366,190)
(732,815)	-	(732,815)
(1,415,953)	-	(1,415,953)
(538,339)	-	(538,339)
(438,300)	-	(438,300)
(438,406)	-	(438,406)
268,902	-	268,902
(4,661,101)	-	(4,661,101)
-	(3,740)	(3,740)
-	(592,605)	(592,605)
-	37,132	37,132
-	1,654,916	1,654,916
-	1,095,703	1,095,703
(4,661,101)	1,095,703	(3,565,398)
2,792,009	-	2,792,009
984,332	-	984,332
1,867,289	-	1,867,289
543,830	-	543,830
37,948	-	37,948
470,198	-	470,198
135,482	765,336	900,818
-	106,940	106,940
-	39,642	39,642
19,356	(19,356)	-
6,850,444	892,562	7,743,006
2,189,343	1,988,265	4,177,608
29,707,615	51,467,195	81,174,810
\$ 31,896,958	53,455,460	85,352,418

CITY OF PELLA, IOWA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2007

	Major Funds				Non-major	
	General	Special Revenue - Road Use	Debt Service	Capital Projects	Other Governmental Funds	Total
<b>Assets</b>						
Cash and pooled investments	\$2,102,199	290,543	34,466	509,115	1,249,258	4,185,581
Receivables:						
Property tax:						
Delinquent	14,468	-	3,496	-	3,637	21,601
Succeeding year	2,006,994	-	434,722	-	419,483	2,861,199
Tax increment financing:						
Delinquent					6,702	6,702
Succeeding year	-	-	-	-	1,979,039	1,979,039
Local option sales tax	-	-	-	-	188,874	188,874
Accounts receivable, miscellaneous	17,412	-	-	4,426	-	21,838
Accrued interest	15,060	-	308	3,632	9,820	28,820
Due from other governments	18,621	43,938	-	2,008	-	64,567
Prepaid expenditures	290	-	-	-	-	290
Due from other funds	-	291,509	-	106,669	-	398,178
<b>Total assets</b>	<b>\$4,175,044</b>	<b>625,990</b>	<b>472,992</b>	<b>625,850</b>	<b>3,856,813</b>	<b>9,756,689</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable and accrued liabilities	\$ 117,092	17,052	-	187,055	2,213	323,412
Salaries and benefits payable	158,299	17,139	-	-	-	175,438
Deferred revenue:						
Succeeding year property tax	2,006,994	-	434,722	-	419,483	2,861,199
Succeeding year tax increment financing	-	-	-	-	1,979,039	1,979,039
Due to other funds	-	-	-	-	398,178	398,178
Compensated absences payable	132,301	20,426	-	-	-	152,727
Total liabilities	<b>2,414,686</b>	<b>54,617</b>	<b>434,722</b>	<b>187,055</b>	<b>2,798,913</b>	<b>5,889,993</b>
Fund balances:						
Reserved for:						
Debt Service	-	-	38,270	-	-	38,270
Permanent Trust	-	-	-	-	140,000	140,000
Unreserved:						
Undesignated:						
Reported in:						
General Fund	1,760,358	-	-	-	-	1,760,358
Special Revenue fund	-	571,373	-	-	917,900	1,489,273
Capital Projects fund	-	-	-	438,795	-	438,795
Total fund balances	<b>1,760,358</b>	<b>571,373</b>	<b>38,270</b>	<b>438,795</b>	<b>1,057,900</b>	<b>3,866,696</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,175,044</b>	<b>625,990</b>	<b>472,992</b>	<b>625,850</b>	<b>3,856,813</b>	<b>9,756,689</b>

See notes to financial statements.

CITY OF PELLA, IOWA  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 June 30, 2007

<b>Total fund balances of governmental funds (Exhibit C)</b>	\$ 3,866,696
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***Amounts reported for governmental activities in the statement of net assets are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$50,416,800 and the accumulated depreciation is \$13,292,948.

37,123,852

An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net assets.

591,278

Long-term liabilities, including bonds/notes payable, compensated absences, and accrued interest payable are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

(9,684,868)

**Net assets of governmental activities (Exhibit A)**

\$ 31,896,958

See notes to financial statements.

## Exhibit E

CITY OF PELLA, IOWA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year ended June 30, 2007

	Major Funds				Non-major	
	Special				Other	
	General	Revenue- Road Use	Debt Service	Capital Projects	Governmental Funds	Totals
Revenues:						
Property taxes	\$ 1,834,985	-	497,666	-	459,358	2,792,009
Tax increment financing	-	-	-	-	1,867,289	1,867,289
Local option sales tax	-	-	-	-	984,332	984,332
Other city taxes	393,696	-	2,778	-	103,232	499,706
Licenses and permits	21,369	-	-	-	-	21,369
Use of money and property	87,537	23,859	2,225	11,637	51,957	177,215
Intergovernmental	571,181	882,870	-	41,391	23,570	1,519,012
Special Assessments	44,124	-	-	-	-	44,124
Charges for services	340,054	-	-	-	-	340,054
Miscellaneous	121,087	348	-	252,563	32,461	406,459
Total revenues	3,414,033	907,077	502,669	305,591	3,522,199	8,651,569
Expenditures:						
Current operating:						
Public safety	1,411,218	-	-	-	-	1,411,218
Public works	237,483	772,575	-	-	-	1,010,058
Culture and recreation	1,522,571	-	-	-	62,783	1,585,354
Community and economic development	326,889	-	-	-	214,645	541,534
General government	339,003	-	-	-	-	339,003
Debt service	-	-	1,706,474	-	-	1,706,474
Capital projects	-	-	-	2,217,218	-	2,217,218
Total expenditures	3,837,164	772,575	1,706,474	2,217,218	277,428	8,810,859
Excess (deficiency) of revenues over (under) expenditures	(423,131)	134,502	(1,203,805)	(1,911,627)	3,244,771	(159,290)
Other financing sources (uses):						
Operating transfers in	519,662	-	1,166,580	1,956,329	100,000	3,742,571
Operating transfers (out)	(90,000)	(561,433)	-	-	(3,071,782)	(3,723,215)
Total other financing sources (uses)	429,662	(561,433)	1,166,580	1,956,329	(2,971,782)	19,356
Net change in fund balances	6,531	(426,931)	(37,225)	44,702	272,989	(139,934)
Fund balances beginning of year	1,753,827	998,304	75,495	394,093	784,911	4,006,630
Fund balances end of year	\$ 1,760,358	571,373	38,270	438,795	1,057,900	3,866,696

See notes to financial statements.

CITY OF PELLA, IOWA  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year ended June 30, 2007

**Net change in fund balances - total governmental funds (Exhibit E)** **\$ (139,934)**

***Amounts reported for governmental activities in the statement of activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 2,248,105	
Depreciation expense	(1,143,507)	
Assets disposed of	-	1,104,598

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	1,265,000
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An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	21,778	
Employer funds for benefits shifted from other funds	742,244	
Employee benefits collected through withholding	171,638	
Claims and premiums paid out	(971,098)	(35,438)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(7,951)	
Interest on long-term debt	3,068	(4,883)

**Change in net assets of governmental activities (Exhibit B)** **\$ 2,189,343**

See notes to financial statements.

CITY OF PELLA, IOWA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2007

	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
<b>Assets</b>		
Current assets:		
Cash and pooled investments	\$ 8,475,273	715,626
Receivables:		
Accrued interest	135,078	5,819
Trade (net of allowance for uncollectible)	1,786,784	-
Inventories	939,470	-
Prepaid expenses	91,885	-
Total current assets	<u>11,428,490</u>	<u>721,445</u>
Non-current assets:		
Restricted assets (cash and pooled investments)	4,489,761	-
Land, wastewater rights and infrastructure	1,576,133	-
Depreciable buildings, property, equipment and infrastructure, net	64,193,640	-
Deferred charge (issuance costs)	231,406	-
Total non-current assets	<u>70,490,940</u>	<u>-</u>
<b>Total assets</b>	<u><u>\$ 81,919,430</u></u>	<u><u>721,445</u></u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,417,601	130,167
Salaries and benefits payable	114,440	-
Deposits	73,313	-
Accrued interest payable	90,629	-
Compensated absences payable	167,895	-
Long-term debt - due within one year	1,928,000	-
Total current liabilities	<u>3,791,878</u>	<u>130,167</u>
Long-term liabilities (net of current portion):		
Compensated absences payable	185,033	-
General obligation bonds payable (net of unamortized discount)	961,427	-
Revenue notes payable (net of unamortized discount)	23,525,632	-
Total long-term liabilities	<u>24,672,092</u>	<u>-</u>
<b>Total liabilities</b>	<u>28,463,970</u>	<u>130,167</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	39,354,714	-
Restricted for debt service and improvements	4,416,448	-
Restricted other	73,313	-
Unrestricted	9,610,985	591,278
<b>Total net assets</b>	<u><u>\$ 53,455,460</u></u>	<u><u>591,278</u></u>

See notes to financial statements



CITY OF PELLA, IOWA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2007

	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
Operating revenues:		
Charges for service (pledged for revenue notes)	\$ 19,220,522	-
Internal service charges	-	913,882
Total operating revenues	<u>19,220,522</u>	<u>913,882</u>
Operating expenses:		
Personnel services	3,337,382	-
Contractual	542,708	290,102
Franchise fees	77,278	-
Materials and Supplies	7,058,364	-
Purchased power	3,830,615	-
Payments in lieu of taxes	470,198	-
Payments in lieu of services	65,520	-
Depreciation	2,246,990	-
Claims expense	-	680,996
Total operating expenses	<u>17,629,055</u>	<u>971,098</u>
Operating income (loss)	<u>1,591,467</u>	<u>(57,216)</u>
Non-operating revenues (expenses):		
Debt costs and interest	(625,874)	-
Interest income	765,336	21,778
Rents	34,137	-
Sales of fixed assets & SO2 credits	39,642	-
Other revenues	72,803	-
Total non-operating revenues	<u>286,044</u>	<u>21,778</u>
Income (loss) before operating transfers	1,877,511	(35,438)
Capital Contributions-assets	130,110	-
Transfers in	90,000	-
Transfers (out)	(109,356)	-
Net transfers	<u>110,754</u>	<u>-</u>
Change in net assets	1,988,265	(35,438)
Net assets beginning of year, as restated	<u>51,467,195</u>	<u>626,716</u>
Net assets end of year	<u><u>\$ 53,455,460</u></u>	<u><u>591,278</u></u>

See notes to financial statements.

CITY OF PELLA, IOWA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year ended June 30, 2007

	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	\$ 19,301,313	-
Cash received from internal service charges	-	913,961
Cash payments to employees for services	(3,305,899)	-
Cash payments for goods and services	(11,635,180)	(921,998)
Cash payments in lieu of services	(470,198)	-
Net cash provided (used) by operating activities	<u>3,890,036</u>	<u>(8,037)</u>
Cash flows from non-capital financing activities:		
Miscellaneous receipts	106,940	-
Transfers in	90,000	-
Transfers (out)	(109,356)	-
Net cash provided by non-capital financing activities	<u>87,584</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(6,778,095)	-
Construction of capital assets (capitalized interest)	(624,886)	-
Principal paid on long-term debt	(1,552,000)	-
Early debt retirement	(70,000)	-
Proceeds from refunding bonds	2,540,000	-
Payments with refunding bonds	(2,540,000)	-
Interest costs (not capitalized)	(546,770)	-
Other long-term debt costs	(57,708)	-
Proceeds from sale of capital asset & SO2 credits	39,642	-
Net cash used by capital and related financing activities	<u>(9,589,817)</u>	<u>-</u>
Cash flows from investing activities:		
Proceeds (to) from investments	(3,834,778)	(213,096)
Investment income	700,232	1,776
Net cash used by investing activities	<u>(3,134,546)</u>	<u>(211,320)</u>
Net decrease in cash and cash equivalents	(8,746,743)	(219,357)
Cash and cash equivalents at beginning of year	<u>12,396,761</u>	<u>533,733</u>
Cash and cash equivalents at end of year	<u>\$ 3,650,018</u>	<u>314,376</u>

CITY OF PELLA, IOWA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year ended June 30, 2007

	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
<i>Continued from previous page</i>		
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 1,591,467	(57,216)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	2,246,990	-
Change in assets and liabilities:		
Decrease in receivables	82,584	79
(Increase) in inventory	(106,475)	-
(Increase) in prepaid expense	(91,885)	-
Increase in accounts payable	137,665	49,100
Increase in accrued expenses	15,866	-
Increase in compensated absences	15,617	-
(Decrease) in deposits held	(1,793)	-
Net cash provided (used) by operating activities	<u>\$ 3,890,036</u>	<u>(8,037)</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:</b>		
Current assets:		
Cash and pooled investments	\$ 8,475,273	715,626
Restricted assets:		
Cash and pooled investments:		
Water bond reserve	460,000	-
Wastewater bond reserve	447,300	-
Electric bond reserve	2,009,148	-
Electric improvement reserve	1,500,000	-
Customer deposits	73,313	-
Total cash and pooled investments	<u>12,965,034</u>	<u>715,626</u>
Less items not meeting definition of cash equivalent:		
Certificates of deposit	(9,128,551)	(393,218)
Iowa Public Agency Investment Trust	(186,465)	(8,032)
	<u>(9,315,016)</u>	<u>(401,250)</u>
Cash and cash equivalents at year end	<u>\$ 3,650,018</u>	<u>314,376</u>
<b>Non-cash investing, capital and financing activities:</b>		
Current issuance cost expense, prior cash outlay	\$ 36,649	-
Current discount amortization, prior cash outlay	40,122	-
Contributions of capital assets from developer/government	130,110	-
Acquisition of capital assets through developer/government contrib.	(130,110)	-

See notes to financial statements.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, are prepared in accordance with U.S. generally accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. Neither fiduciary funds nor component units that are fiduciary in nature are included. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**(1) Summary of Significant Accounting Policies (continued from previous page)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general obligation long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(1) ***Summary of Significant Accounting Policies (continued from previous page)***

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These non-major governmental funds are grouped for financial statement reporting purposes:

Special Revenue:

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for aquatic center, debt relief, capital improvements, equipment and community programs and services.

The Employee Benefits Fund is used to account for property tax levied to finance the payment of employee benefits.

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Swim Team Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(1) ***Summary of Significant Accounting Policies (continued from previous page)***  
***C. Measurement Focus and Basis of Accounting (continued from previous page)***

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the modified accrual basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified accrual basis financial records.

D. **Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

**Cash, Pooled Investments and Cash Equivalents** - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(1) ***Summary of Significant Accounting Policies (continued from previous page)***

For purposes of the statement of cash flow, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Trade receivables – Trade receivables are recorded in the enterprise funds at the time the service is billed. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

Inventories - Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2007 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2006.

Due from and Due to Other Funds - During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2007, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.



CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of two years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

In June, 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. The Statement allows a delay of up to 4 years from the initial GASB No. 34 implementation for recognizing past acquisitions of infrastructure if the cost of determining that figure is prohibitive within the current year. The City elected to take that time to try to internally determine original costs of infrastructure and save the cost of hiring an outside party to estimate its value. As required, these infrastructure assets have been included as a GASB No. 34 restatement to the beginning net asset amount for the governmental activities at July 1, 2006. See note 19.

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water and sewer funds were financed with existing revenues, no interest on debt was incurred or capitalized. Capital improvements in the electric fund were funded through electric revenue bonds. Interest costs of \$624,886 related to the debt were capitalized.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(1) ***Summary of Significant Accounting Policies (continued from previous page)***

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2007.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Use of Restricted/Unrestricted Net Assets - When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

Fund Equity – In the governmental fund financial statements, reservations of fund balances are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(1) **Summary of Significant Accounting Policies (continued from previous page)**

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amount budgeted in the public works, community and economic development, and general government functions.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2007 are as follows:

Certificates of deposit	\$ 11,469,321
Iowa Public Agency Investment Trust	234,314
Government Bonds	47,879
Total	<u>\$ 11,751,514</u>

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Public Agency Investment Trust is rated Aaa by Moody's Investors Service. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**(3) Trade Accounts Receivable and Allowance for Uncollectibles**

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: \$134,188, \$24,341, \$23,612 and \$17,736, respectively.

**(4) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(5) Due From and Due To Other Funds**

Since July 1, 2001, the interfund receivable due to the Road Use Fund has accrued interest at a rate of 6% compounded annually. Since February 1, 2007, the interfund receivable due to the Capital Projects Fund has accrued interest at a rate of 5% compounded annually.

The detail of interfund receivables and payables for the year ended June 30, 2007 is as follows:

Receivable Fund:	Payable Fund:	Amount	APR
Road Use Fund	Pella Business Corridor TIF	\$ 291,509	6%
Capital Projects Fund	High Point TIF	106,669	5%

These balances result from interfund loans to finance projects. Repayments will be made from future TIF revenues and are not expected to be paid within one year.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**(6) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to:	Transfer from:	Amount
General	Employee Benefits - Special Revenue	\$ 465,209
General	Sanitation	54,453
Debt Service	Local sales tax - Special Revenue	139,825
Debt Service	Bos Landen-TIF - Special Revenue	398,408
Debt Service	Pella Business Corridor-TIF - Special Revenue	628,347
Bos Landen-TIF - Special Revenue	Local sales tax - Special Revenue	100,000
Capital	General	90,000
Capital	Pella Community Center Trust	25,083
Capital	Carnegie-Viersen Van Gorp Trust	19,282
Capital	Local sales tax - Special Revenue	94,550
Capital	Water	18,301
Capital	Wastewater	18,301
Capital	Electric	18,301
Capital-Pella Outdoor Aquatic	Local sales tax - Special Revenue	584,522
Capital-Local Option	Local sales tax - Special Revenue	149,973
Capital-RUT	Road use - Special Revenue	561,433
Capital-Highpoint	Highpoint-TIF - Special Revenue	205,897
Capital-Pella Business Corridor	Pella Business Corridor-TIF - Special Revenue	170,686
Wastewater	Pella Business Corridor-TIF - Special Revenue	90,000

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(7) SO2 Emission Credit**

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. SO2 emission credit activity for the year ended June 30, 2007 is as follows:

Beginning of year	Credits earned	Credits expended	Sold	End of Year
\$ 6,520	1,803	(667)	(50)	7,606

The value of the unused credits at the year end was \$525 per credit for a total value of \$3,993,150.

## CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**(8) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

<b>Primary Government:</b>	Adjusted Beginning Balance	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 5,083,423	280,115	-	5,363,538
Construction in progress:				
Aquatic Center	3,114,144	2,188	(3,116,332)	-
Volksweg Trail Extension	58,769	123,058	-	181,827
1100 Lincoln Improvements	44,025	3,806	(47,831)	-
Brick St. Program	20,726	91,343	(112,069)	-
8th Street Extension	16,664	90,854	(107,518)	-
University St. Extension	59,035	135,510	(194,545)	-
Washington St. Widening	77,886	316,684	-	394,570
New City Hall	746,971	54,487	(801,458)	-
Airport Runway 16/34 Rehab	-	1,455	-	1,455
Aquatic Center II	-	582,351	-	582,351
Total capital assets not being depreciated	9,221,643	1,681,851	(4,379,753)	6,523,741
Capital assets being depreciated:				
Vehicles	259,005	112,590	-	371,595
Buildings and improvements	16,656,366	3,917,790	-	20,574,156
Machinery and equipment	5,531,720	130,938	(62,002)	5,600,656
Infrastructure	16,561,963	784,689	-	17,346,652
Total capital assets being depreciated	39,009,054	4,946,007	(62,002)	43,893,059
Less accumulated depreciation for:				
Vehicles	142,267	38,558	-	180,825
Buildings and improvements	2,917,560	458,182	-	3,375,742
Machinery and equipment	4,889,089	183,299	(62,002)	5,010,386
Infrastructure	4,262,527	463,468	-	4,725,995
Total accumulated depreciation	12,211,443	1,143,507	(62,002)	13,292,948
Total capital assets being depreciated net	26,797,611	3,802,500	-	30,600,111
<b>Governmental activities capital assets, net</b>	<b>\$ 36,019,254</b>	<b>5,484,351</b>	<b>(4,379,753)</b>	<b>37,123,852</b>

## CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007(8) **Capital assets (continued from previous page)**

<b>Business type activities:</b>	Adjusted Beginning Balance	Increases	Decreases	Balance End of Year
<b>Water Fund:</b>				
Capital assets not being depreciated:				
Land	\$ 118,360	-	-	118,360
Construction in progress:				
Security System	35	7,960	(7,995)	-
University St. Main Replacement	94,362	130,360	-	224,722
Broadway St. Main Replacement	33,734	17,640	(51,374)	-
Jordan Well Repairs	-	45,414	-	45,414
Total capital assets not being depreciated	246,491	201,374	(59,369)	388,496
Capital assets being depreciated:				
Buildings and improvements	9,515,953	29,000	-	9,544,953
Machinery and equipment	219,005	92,890	(8,236)	303,659
Furniture and fixtures	1,079	-	-	1,079
Vehicles	30,419	35,259	(3,500)	62,178
Infrastructure	4,198,367	144,056	-	4,342,423
Total capital assets being depreciated	13,964,823	301,205	(11,736)	14,254,292
Less accumulated depreciation for:				
Buildings and improvements	4,449,096	247,412	-	4,696,508
Machinery and equipment	117,584	21,388	(8,236)	130,736
Furniture and fixtures	1,079	-	-	1,079
Vehicles	23,006	6,875	(3,500)	26,381
Infrastructure	1,471,163	169,792	-	1,640,955
Total accumulated depreciation	6,061,928	445,467	(11,736)	6,495,659
Total capital assets being depreciated net	7,902,895	(144,262)	-	7,758,633
<b>Water - capital assets, net</b>	<b>\$ 8,149,386</b>	<b>57,112</b>	<b>(59,369)</b>	<b>8,147,129</b>

## CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007(8) **Capital assets (continued from previous page)**

	Adjusted Beginning Balance	Increases	Decreases	Balance End of Year
<b>Wastewater Fund</b>				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Construction in Progress:				
DAF Thickener Renovation	4,074	21,365	(25,439)	-
Broadway Sewer Replacement	29,773	8,892	(38,665)	-
Total capital assets not being depreciated	940,896	30,257	(64,104)	907,049
Capital assets being depreciated:				
Buildings and improvements	16,720,245	6,800	-	16,727,045
Machinery and equipment	529,049	25,439	-	554,488
Furniture and fixtures	4,604	-	-	4,604
Vehicles	37,322	18,310	(6,263)	49,369
Infrastructure	7,310,238	76,093	-	7,386,331
Total capital assets being depreciated	24,601,458	126,642	(6,263)	24,721,837
Less accumulated depreciation for:				
Buildings and improvements	9,871,983	435,876	-	10,307,859
Machinery and equipment	311,007	31,086	-	342,093
Furniture and fixtures	4,604	-	-	4,604
Vehicles	36,247	3,139	(6,263)	33,123
Infrastructure	2,205,300	293,260	-	2,498,560
Total accumulated depreciation	12,429,141	763,361	(6,263)	13,186,239
Total capital assets being depreciated net	12,172,317	(636,719)	-	11,535,598
<b>Wastewater - capital assets, net</b>	<b>\$ 13,113,213</b>	<b>(606,462)</b>	<b>(64,104)</b>	<b>12,442,647</b>



## CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007(8) **Capital assets (continued from previous page)**

	Adjusted Beginning Balance	Increases	Decreases	Balance End of Year
<b>Electric Fund</b>				
Capital assets not being depreciated:				
Land	\$ 550,724	-	-	550,724
Construction in progress:				
Council Bluffs Unit Four	11,090,681	6,741,494	-	17,832,175
Roosevelt Area Feeder	38,390	12,823	(51,213)	-
Stack liner Replacement	208,659	10,582	(219,241)	-
Cable Replacement	2,779	12,323	-	15,102
Total capital assets not being depreciated	11,891,233	6,777,222	(270,454)	18,398,001
Capital assets being depreciated:				
Buildings and improvements	20,039,815	219,241	-	20,259,056
Machinery and equipment	22,683,028	271,077	-	22,954,105
Furniture and fixtures	21,037	-	-	21,037
Vehicles	378,451	-	-	378,451
Total capital assets being depreciated	43,122,331	490,318	-	43,612,649
Less accumulated depreciation for:				
Buildings and improvements	9,100,481	303,795	-	9,404,276
Machinery and equipment	6,359,337	707,641	-	7,066,978
Furniture and fixtures	21,037	-	-	21,037
Vehicles	311,636	26,726	-	338,362
Total accumulated depreciation	15,792,491	1,038,162	-	16,830,653
Total capital assets being depreciated net	27,329,840	(547,844)	-	26,781,996
<b>Electric-capital assets, net</b>	<b>\$ 39,221,073</b>	<b>6,229,378</b>	<b>(270,454)</b>	<b>45,179,997</b>

## CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007(8) **Capital assets (continued from previous page)**

<b>Combining Schedule</b>	<b>Adjusted</b>			<b>Balance</b>
<b>Business type activities:</b>	<b>Beginning</b>			<b>End of</b>
	<b>Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Year</b>
Capital assets not being depreciated:				
Land	\$ 1,576,133	-	-	1,576,133
Construction in progress	11,502,487	7,008,853	(393,927)	18,117,413
Total capital assets not being depreciated	13,078,620	7,008,853	(393,927)	19,693,546
Capital assets being depreciated:				
Total capital assets being depreciated	81,688,612	918,165	(17,999)	82,588,778
Total accumulated depreciation	34,283,560	2,246,990	(17,999)	36,512,551
Total capital assets being depreciated (net)	47,405,052	(1,328,825)	-	46,076,227
<b>Business type activities capital assets, net</b>	<b>\$ 60,483,672</b>	<b>5,680,028</b>	<b>(393,927)</b>	<b>65,769,773</b>

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public works	\$ 623,957
Public safety	117,950
Culture and recreation	277,557
General government	124,043
Total depreciation expense - governmental activities	<u>1,143,507</u>
Business type activities:	
Water	\$ 445,467
Wastewater	763,361
Electric	1,038,162
Total depreciation expense - business type activities	<u>\$ 2,246,990</u>

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(9) **Changes in Long-Term Liabilities**

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. The following is a summary of changes in long-term liabilities of the City of Pella for the year ended June 30, 2007:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due in More than One Year
<b>Governmental activities:</b>						
General obligation bonds/notes	\$ 10,775,000	-	(1,265,000)	9,510,000	1,295,000	8,215,000
Compensated absences	269,558	160,678	(135,847)	294,389	152,727	141,662
<b>Total governmental activities</b>	<b>\$ 11,044,558</b>	<b>160,678</b>	<b>(1,400,847)</b>	<b>9,804,389</b>	<b>1,447,727</b>	<b>8,356,662</b>
<b>Business type activities:</b>						
General obligation bonds/notes	\$ 1,195,000	-	(110,000)	1,085,000	115,000	970,000
Revenue bonds/notes	27,091,000	2,540,000	(4,162,000)	25,469,000	1,813,000	23,656,000
Compensated absences	308,124	197,082	(152,278)	352,928	167,895	185,033
Total	28,594,124	2,737,082	(4,424,278)	26,906,928	2,095,895	24,811,033
Unamortized discount	(157,616)	(26,670)	45,345	(138,941)	-	(138,941)
<b>Total business type activities</b>	<b>\$ 28,436,508</b>	<b>2,710,412</b>	<b>(4,378,933)</b>	<b>26,767,987</b>	<b>2,095,895</b>	<b>24,672,092</b>

General Obligation Bonds

Eight issues of unmatured general obligation bonds/notes totaling \$10,595,000 are outstanding at June 30, 2007. General obligation bonds/notes bear interest rates ranging from 1.30% to 5.65% per annum and mature in varying annual amounts, ranging from \$70,000 to \$385,000, with final maturities due in the year ending June 30, 2020.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Details of general obligation bonds/notes payable at June 30, 2007 are as follows:

Purpose	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2007
General Government G/O	1999	4.90-5.50%	June 1, 2018	\$125,000-225,000	\$ 2,610,000	1,920,000
General Government G/O	2000	5.25-5.65%	June 1, 2020	70,000-155,000	1,800,000	1,465,000
General Government G/O	2001	3.40-4.15%	June 1, 2010	215,000-385,000	2,360,000	1,105,000
Proprietary-Sewer G/O	2001	4.00-4.75%	June 1, 2015	105,000-160,000	1,505,000	1,085,000
General Government G/O	2002	1.60-3.25%	June 1, 2010	195,000-225,000	1,600,000	650,000
General Government G/O	2003	1.30-3.50%	June 1, 2012	85,000-155,000	1,370,000	625,000
General Government G/O	2003	2.00-3.50%	June 1, 2015	175,000-240,000	2,300,000	1,675,000
General Government G/O	2006	3.65-4.05%	June 1, 2016	190,000-270,000	2,260,000	2,070,000
					15,805,000	10,595,000
Unamortized discount					(36,490)	(8,573)
General obligation bonds net of unamortized discounts					<u>\$ 15,768,510</u>	<u>10,586,427</u>

## CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**(9) Long-Term Liabilities (continued from previous page)**

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year ending June 30,	Enterprise Funds		General		Total	
	Wastewater		Debt			
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 115,000	48,470	1,295,000	398,475	1,410,000	446,945
2009	120,000	43,755	1,365,000	351,532	1,485,000	395,287
2010	125,000	38,715	1,405,000	300,112	1,530,000	338,827
2011	130,000	33,340	760,000	245,887	890,000	279,227
2012	140,000	27,620	795,000	215,288	935,000	242,908
2013-2017	455,000	43,570	3,230,000	593,046	3,685,000	636,616
2018-2021	-	-	660,000	62,382	660,000	62,382
Total	\$ 1,085,000	235,470	9,510,000	2,166,722	10,595,000	2,402,192

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	1999	\$ 2,610,000	June 1, 2008
General Government G/O	2000	1,800,000	Not subject to call
General Government G/O	2001	2,360,000	June 1, 2008
Proprietary-Sewer G/O	2001	1,505,000	June 1, 2009
General Government G/O	2002	1,600,000	Not subject to call
General Government G/O	2003	1,370,000	June 1, 2008
General Government G/O	2003	2,300,000	June 1, 2015
General Government G/O	2006	2,260,000	June 1, 2014

The following is a summary of the transactions for the general obligation bonds of the City for the year ended June 30, 2007:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
General Obligation bonds/notes	\$ 11,970,000	-	(1,375,000)	10,595,000
Unamortized discount	(9,623)	-	1,050	(8,573)
Net General Obligation bonds/notes	\$ 11,960,377	-	(1,373,950)	10,586,427

## CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**(9) Long-Term Liabilities (continued from previous page)**Revenue Notes

Eight issues of unmatured revenue notes totaling \$25,469,000 are outstanding at June 30, 2007. These notes bear interest at rates ranging from 2.10% to 4.625% per annum and mature in varying annual amounts ranging from \$21,000 to \$1,090,000 with the final maturity due in the year ending June 30, 2021.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a) The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.
- b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c) Separate electric, water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.
- d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, and not less than 130% for electric and water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

During the year ended June 30, 2007, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2007, are as follows:

Purpose	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2007
Wastewater	1999	3.92%	June 1, 2021	\$111,000-197,000	\$ 2,800,000	2,172,000
Wastewater	2000	4.30%	June 1, 2021	62,000-116,000	1,604,000	1,254,000
Wastewater	2000	4.30%	June 1, 2021	21,000-39,000	641,000	418,000
Electric	2001	4.00-4.625%	June 1, 2014	565,000-930,000	9,000,000	5,640,000
Water	2003	2.10-3.90%	June 1, 2014	95,000-130,000	1,000,000	805,000
Electric	2004	3.25-3.90%	June 1, 2019	105,000-1,090,000	6,000,000	5,880,000
Electric	2005	2.80-4.10%	June 1, 2019	240,000-710,000	7,000,000	6,760,000
Water refunding	2007	3.60-3.70%	June 1, 2015	260,000-370,000	2,540,000	2,540,000
					30,585,000	25,469,000
Unamortized discount					(283,984)	(130,368)
Net Revenue bonds					<u>\$ 30,301,016</u>	<u>25,338,632</u>

## CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**(9) Long-Term Liabilities (continued from previous page)**

A summary of annual revenue note principal and interest requirements to maturity are as follows:

Year ended June 30,	Enterprise Funds							
	Water		Wastewater		Electric		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 360,000	142,203	208,000	157,038	1,245,000	717,740	1,813,000	1,016,981
2009	400,000	107,958	217,000	148,547	1,290,000	671,372	1,907,000	927,877
2010	420,000	94,083	226,000	139,687	1,345,000	622,652	1,991,000	856,422
2011	435,000	79,293	235,000	130,459	1,435,000	570,759	2,105,000	780,511
2012	460,000	63,805	246,000	120,863	1,495,000	513,999	2,201,000	698,667
2013-2017	1,270,000	87,665	1,386,000	445,320	7,955,000	1,611,885	10,611,000	2,144,870
2018-2021	-	-	1,326,000	138,260	3,515,000	208,340	4,841,000	346,600
Total	\$ 3,345,000	575,007	3,844,000	1,280,174	18,280,000	4,916,747	25,469,000	6,771,928

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	\$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Electric	2001	9,000,000	June 1, 2009
Water	2003	1,000,000	June 1, 2009
Electric	2004	6,000,000	June 1, 2012
Electric	2005	7,000,000	June 1, 2013
Water refunding	2007	2,540,000	Not subject to call

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2007:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	\$ 3,760,000	2,540,000	(2,955,000)	3,345,000
Unamortized discount	(33,423)	(26,670)	31,893	(28,200)
Net water revenue notes	3,726,577	2,513,330	(2,923,107)	3,316,800
Sewer revenue notes	4,046,000	-	(202,000)	3,844,000
Net sewer revenue notes	4,046,000	-	(202,000)	3,844,000
Electric revenue notes	19,285,000	-	(1,005,000)	18,280,000
Unamortized discount	(114,570)	-	12,402	(102,168)
Net electric revenue notes	19,170,430	-	(992,598)	18,177,832
Total net revenue notes	\$ 26,943,007	2,513,330	(4,117,705)	25,338,632

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(9) **Long-Term Liabilities (continued from previous page)**

Current Refunding - During the current year, the City issued \$2,540,000 of refunding notes for a current refunding of the City's Water Revenue Notes, series 1995, dated June 1, 1995. As a result, the current refunded notes are considered to be defeased. This refunding was undertaken to reduce total debt service payments over the next eight years by \$191,743 and resulted in an economic gain of approximately \$173,000.

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of \$438,406 is all direct interest expense on long-term debt.

Discount and issuance costs are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction of the face amount of bonds/notes payable whereas issuance costs are recorded as deferred charges. The details of the discounts are listed in the previous schedules. The unamortized issuances costs are listed as an asset on the balance sheet. The issuance costs are amortized over the life of the loan and are included in interest and debt costs. Issuance costs detail is as follows:

	Balance Beginning of Year	Incurred	Amortized	Balance End of Year
<b>Business type activities:</b>				
Sewer general obligation bond	\$ 10,392	-	(1,154)	9,238
Sewer SFR Loan	45,602	-	(3,258)	42,344
Water revenue note	38,888	26,911	(18,291)	47,508
Electric revenue note	146,262	-	(13,946)	132,316
Total deferred issuance costs	<u>\$ 241,144</u>	<u>26,911</u>	<u>(36,649)</u>	<u>231,406</u>

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

(10) **Net Assets Restricted by Enabling Legislation**

The components of Net Restricted Assets listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Debt restricted - Water Bond Reserve	\$ -	460,000
Debt restricted - Wastewater Bond Reserve	-	447,300
Debt restricted - Electric Bond Reserve	-	2,009,148
Debt restricted - Electric Improvement Reserve	-	1,500,000
Debt restricted - Debt Service fund balance	5,064	-
Special purposes - Road use	571,373	-
Special purposes - Local Option Sales Tax	627,696	-
Special purposes - Pella Clothing Bank	1,260	-
Special purposes - Police Reserve	1,094	-
Special purposes - Community Development	4,532	-
Special purposes - Library Gifts/Memorials	63,209	-
Special purposes - Pella Community Center	7,113	-
Special purposes - TIF - Bos Landen	317,231	-
Special purposes - TIF - High Point	(106,669)	-
Special purposes - TIF - Pella Business Corridor	(286,777)	-
Special purposes - to cover deficit TIF balances	393,446	-
Special purposes - Art Center	23,161	-
Special purposes - Airport	115,022	-
Special purposes - Police Asset Forfeiture	33,375	-
Special purposes - Soccer Complex	15,321	-
Special purposes - Parks Development	35,282	-
Special purposes - Carnegie-Viersen Trust Earnings - Library operations	22,198	-
Special purposes - Carnegie-Viersen-Van Gorp Trust Earnings - Educational purposes	4,544	-
Special purposes - Carnegie-Viersen-Van Gorp Trust - Library Repairs	30,718	-
Special purposes - Van Gorp Trust Earnings - Information Windmill Repairs	9,590	-
Nonexpendable - Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Nonexpendable - Permanently restriction donation - Van Gorp Trust	100,000	-
Other - Customer utility deposits	-	73,313
Total net restricted assets	\$ 2,027,783	4,489,761

(11) **Risk Management**

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Self-Insured Health Care Plan - The City of Pella has a self-insured health care plan for City employees. A fixed monthly fee per participating employee is paid to an insurance administrative company to administer the plan and evaluate claims.



CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**(11) Risk Management (continued from previous page)**

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the city for claims incurred is limited by the "stop-loss" feature of the plan. The maximum exposure for one individual in a twelve month period is \$50,000, and the maximum exposure for the group as a whole is a computed amount based on 120 percent of the actuarially computed expected claims for the group. Claims in excess of the stop-loss ceilings are paid by the stop-loss insurance company.

At June 30, 2007, the plan held \$715,626 cash and pooled investments. The actuarial estimate of the reserves necessary for claims incurred but not yet paid was \$130,167, which is listed as the accounts payable balance of the Internal Service Fund.

**(12) Proprietary Revenues Net of Discounts and Allowances**

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in Allowance	Net Charges for Service
Water	\$1,920,887	1,262	1,922,149
Wastewater	1,469,779	1,574	1,471,353
Electric	15,315,351	(11,816)	15,303,535
Sanitation	514,505	(729)	513,776

## CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007**(13) Construction Contracts**

The City has entered into several contracts totaling \$21,135,522. At June 30, 2007, \$18,042,011 has been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	%Complete
Aquatic Center			
Central Electric	\$ 188,060	\$ 178,657	95%
Council Bluffs 4			
Mid-American Energy	16,830,355	16,580,608	99%
Aquatic Center-Lazy River			
M & M Enterprises	2,961,835	426,296	14%
University St. Water Main			
Rognes Corporation	197,383	188,839	96%
Volksweg Trailhead			
TK Concrete	9,975	9,476	95%
Country Landscapes, Inc	38,818	36,877	95%
Washington St. Widening			
Elder Corporation	290,134	274,820	95%
Replacement Airport			
Snyder & Assoc.	211,136	23,367	11%
Emission Compliance & Life Ext.			
Stanley Consultants	230,900	224,951	97%
Airport Layout Plan			
Snyder & Assoc.	42,000	27,300	65%
Wildlife Management Plan			
Snyder & Assoc.	15,739	15,267	97%
Comprehensive Plan			
RDG Planning	29,000	24,650	85%
Airport Runway 16/32 Rehabilitation			
Snyder & Assoc.	9,926	1,455	15%
Source Water Study			
McClure Engineering	80,100	44,715	56%
Washington St. Corridor Enhancement Study			
RDG Planning	15,900	-	0%
	<u>\$21,151,261</u>	<u>\$ 18,057,278</u>	

Other Contracts:	Expires:
Power Interchange Agreement	
Muscatine Power & Water	5/31/2009
Coal Supply Agreement	
Interstate Power & Light	Base price 12/31/2007
Ash Diposal Agreement	
Interstate Power & Light	Base price 12/31/2007

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**(14) Retirement Plans**

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005, were \$229,337, \$218,144, and \$211,252, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104<sup>th</sup> St., Des Moines, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 27.75%, 28.21%, and 24.92%, of earnable compensation for the years ended June 30, 2007, 2006 and 2005, respectively. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2007, 2006 and 2005 were \$167,229, \$169,977, and \$139,834, respectively, which met the required minimum contribution for each year.

**(15) Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**(16) Deficit Balances**

At June 30, 2007, funds with deficit balances were as follows:

Special Revenue, Tax Increment Financing	
Pella Business Corridor	\$286,777
High Point	\$106,669

These deficit balances are the result of project costs in excess of available funds. These deficits will be eliminated upon collection of tax increment financing revenues and the subsequent transfer of these revenues into the Capital Projects and Road Use Funds.

**(17) Related Party Transactions**

The City had business transactions between the City and Council members totaling \$1,337 during the year ended June 30, 2007. There were no related payables at June 30, 2007.

**(18) Major Customer**

During the year ended June 30, 2007, the City of Pella Municipal Electric Utility had two major customers. They purchased \$3,455,536 and \$2,184,216 of electric power. These charges represent 22.56% and 14.26%, respectively, of total charges for electric services.

**(19) Accounting Change**

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences were implemented during the year ended June 30, 2003. At that time, the City adopted the optional method to restate the beginning net assets to recognize the infrastructure assets as of July 1, 2006. The following lists the adjustment to pick up those assets:

Entity-wide financial statements - Governmental activities:	
Exhibit A, B; Net Assets June 30, 2006	\$ 17,994,110
Capital assets, net of accumulated depreciation of \$2,880,702	11,713,505
Net assets, July 1, 2006, as restated	<u>\$ 29,707,615</u>

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**(20) Prior Period Adjustments**

During the process to identify and include all infrastructure assets to fully implement the accounting change as listed in Note 19, several errors and omissions from prior periods were discovered. The most significant error stems from assets put in place by developers and then turned over to the City.

Developers or any builders are responsible for the cost of water and sewer lines as well as streets where new building is occurring. After the proprietary and general government assets are put in place, they are signed over to the City. These should then be recognized as a contribution or donation in revenues and as a fixed asset. Since there were no cash outlays for these assets, they went unrecorded in prior years.

The extra scrutiny of the assets also revealed several assets which were listed but had not been in service or usable for some time. They were subsequently removed from the records. The adjustments resulted in the following changes to beginning fund balances:

Proprietary Net Assets	June 30, 2006	Prior Period Adjustments	As restated, July 1, 2006
Water	\$ 5,518,896	1,687,160	7,206,056
Wastewater	10,486,341	(1,017,112)	9,469,229
Electric	34,899,305	(143,655)	34,755,650
Sanitation	36,260	-	36,260
Total	<u>\$ 50,940,802</u>	<u>526,393</u>	<u>51,467,195</u>

**(21) Subsequent Events**

On July 28, 2007 a coal boiler in the electric plant went down. Bids to repair the damages are expected to be approximately \$1.2 million. It is expected that the City will have to pay \$50,000 for building repairs and \$100,000 for the boiler to cover insurance deductibles. It is unclear as to the extent of insurance coverage at this time.

**CITY OF PELLA, IOWA**

### **Required Supplementary Information**

CITY OF PELLA, IOWA  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN BALANCES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) -  
GOVERNMENTAL AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
Year ended June 30, 2007

	Governmental Funds-Actual	Proprietary Funds- Actual
Revenues:		
Property taxes	\$ 2,792,009	-
Tax increment financing	1,867,289	-
Other city taxes	1,528,162	-
Licenses and permits	21,369	-
Use of money and property	177,215	799,473
Intergovernmental	1,519,012	-
Charges for services	340,054	19,220,522
Miscellaneous	406,459	72,803
Total revenues	8,651,569	20,092,798
Expenditures:		
Public safety	1,411,218	-
Health and social services	-	-
Public works	1,010,058	-
Culture and recreation	1,585,354	-
Community and economic development	541,534	-
General government	339,003	-
Debt service	1,706,474	-
Capital projects	2,217,218	-
Business type activities	-	25,244,617
Total expenditures	8,810,859	25,244,617
Deficiency of revenues under expenditures	(159,290)	(5,151,819)
Other financing sources (uses):		
Operating transfers in	3,742,571	90,000
Operating transfers out	(3,723,215)	(109,356)
Capital Contributions-assets	-	130,110
Debt Proceeds	-	-
Proceeds from sale of assets	-	39,642
Total other financing sources	19,356	150,396
Deficiency of revenues and other financing sources under expenditures	(139,934)	(5,001,423)
Balance beginning of year	4,006,630	19,397,156
Balance end of year	\$ 3,866,696	14,395,733

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.



Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
2,792,009	2,790,713	2,790,713	1,296
1,867,289	1,809,382	1,809,382	57,907
1,528,162	1,262,065	1,262,065	266,097
21,369	16,600	16,600	4,769
976,688	474,550	617,191	359,497
1,519,012	2,081,400	2,081,400	(562,388)
19,560,576	18,617,671	19,504,036	56,540
479,262	181,500	208,800	270,462
28,744,367	27,233,881	28,290,187	454,180
1,411,218	1,440,634	1,442,334	31,116
-	-	-	-
1,010,058	978,136	978,136	(31,922)
1,585,354	1,590,127	1,590,127	4,773
541,534	456,889	477,789	(63,745)
339,003	323,205	321,505	(17,498)
1,706,474	1,840,278	1,840,278	133,804
2,217,218	1,990,200	2,559,521	342,303
25,244,617	25,285,077	27,941,491	2,696,874
34,055,476	33,904,546	37,151,181	3,095,705
(5,311,109)	(6,670,665)	(8,860,994)	3,549,885
3,832,571	12,826,355	12,592,219	8,759,648
(3,832,571)	(9,120,105)	(8,910,969)	(5,078,398)
130,110	-	-	(130,110)
-	-	-	-
39,642	-	-	(39,642)
169,752	3,706,250	3,681,250	3,511,498
(5,141,357)	(2,964,415)	(5,179,744)	38,387
23,403,786	19,595,298	22,877,393	526,393
18,262,429	16,630,883	17,697,649	564,780

CITY OF PELLA, IOWA  
BUDGETARY COMPARISON SCHEDULE  
PROPRIETARY-GAAP TO MODIFIED ACCRUAL RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
Year ended June 30, 2007

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 20,092,798	-	20,092,798
Expenses:			
Business type activities	18,254,929	6,989,688	25,244,617
Total expenses	18,254,929	6,989,688	25,244,617
Excess (deficiency) of revenues under expenses	1,837,869	(6,989,688)	(5,151,819)
Other financing sources (uses):			
Operating transfers from other funds	90,000	-	90,000
Operating transfers to other funds	(109,356)	-	(109,356)
Sale of fixed assets	39,642	-	39,642
Other revenues	130,110	-	130,110
Total other financing sources	150,396	-	150,396
Increase in net assets	1,988,265	(6,989,688)	(5,001,423)
Beginning net assets, as restated	51,467,195	(32,070,039)	19,397,156
Ending net assets	\$ 53,455,460	(39,059,727)	14,395,733

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting. The adjustments account for the \$6,989,688 adjustment to proprietary expenditures.

See accompanying independent auditor's report.

CITY OF PELLA, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
Year ended June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$3,246,635. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements in the public works, community and economic development, and general government functions exceeded the amounts budgeted.

**CITY OF PELLA, IOWA**

## **Other Supplementary Information**

## Schedule 1

CITY OF PELLA, IOWA  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2007

## Special Revenue Funds

	Tax Increment Financing	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial
<b>Assets</b>							
Cash and pooled investments	\$ 314,951	433,483	(3,637)	1,252	1,081	4,483	63,508
Receivable:							
Property tax:							
Delinquent	-	-	3,637	-	-	-	-
Succeeding year	-	-	419,483	-	-	-	-
Tax Increment Financing:							
Delinquent	6,702	-	-	-	-	-	-
Succeeding year	1,979,039	-	-	-	-	-	-
Local option sales tax	-	188,874	-	-	-	-	-
Accrued interest	310	5,339	-	8	13	49	647
<b>Total assets</b>	<b>\$ 2,301,002</b>	<b>627,696</b>	<b>419,483</b>	<b>1,260</b>	<b>1,094</b>	<b>4,532</b>	<b>64,155</b>
<b>Liabilities and Fund Balance</b>							
Liabilities:							
Accounts payable	\$ -	-	-	-	-	-	946
Deferred revenue:							
Succeeding year property tax	-	-	419,483	-	-	-	-
Succeeding year tax increment financ.	1,979,039	-	-	-	-	-	-
Interfund payable	398,178	-	-	-	-	-	-
Total liabilities	2,377,217	-	419,483	-	-	-	946
Fund balances:							
Reserved:							
Permanent trust	-	-	-	-	-	-	-
Other special purposes	(76,215)	627,696	-	1,260	1,094	4,532	63,209
Total fund balances	(76,215)	627,696	-	1,260	1,094	4,532	63,209
<b>Total liabilities and fund balance</b>	<b>\$ 2,301,002</b>	<b>627,696</b>	<b>419,483</b>	<b>1,260</b>	<b>1,094</b>	<b>4,532</b>	<b>64,155</b>

See accompanying independent auditor's report.

Schedule 1

Special Revenue Funds								Permanent Funds		Total Non-major Governmental Funds
Pella Community Center Trust	Swim Team Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	
7,091	-	24,078	113,612	33,351	15,321	35,396	34,842	62,198	108,248	1,249,258
-	-	-	-	-	-	-	-	-	-	3,637
-	-	-	-	-	-	-	-	-	-	419,483
-	-	-	-	-	-	-	-	-	-	6,702
-	-	-	-	-	-	-	-	-	-	1,979,039
-	-	-	-	-	-	-	-	-	-	188,874
72	-	-	1,410	24	-	186	420	-	1,342	9,820
7,163	-	24,078	115,022	33,375	15,321	35,582	35,262	62,198	109,590	3,856,813
50	-	917	-	-	-	300	-	-	-	2,213
-	-	-	-	-	-	-	-	-	-	419,483
-	-	-	-	-	-	-	-	-	-	1,979,039
-	-	-	-	-	-	-	-	-	-	398,178
50	-	917	-	-	-	300	-	-	-	2,798,913
-	-	-	-	-	-	-	-	40,000	100,000	140,000
7,113	-	23,161	115,022	33,375	15,321	35,282	35,262	22,198	9,590	917,900
7,113	-	23,161	115,022	33,375	15,321	35,282	35,262	62,198	109,590	1,057,900
7,163	-	24,078	115,022	33,375	15,321	35,582	35,262	62,198	109,590	3,856,813

## Schedule 2

CITY OF PELLA, IOWA  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NON-MAJOR OTHER GOVERNMENTAL FUNDS  
 Year ended June 30, 2007

	Special Revenue Funds								
	Tax Increment Financing	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial	Pella Community Center	Swim Team Trust
Revenues:									
Property tax	\$ -	-	459,358	-	-	-	-	-	-
Tax Increment Financing	1,867,289	-	-	-	-	-	-	-	-
Local option tax	-	984,332	-	-	-	-	-	-	-
Other City Taxes	-	100,000	3,232	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	13,833	500	-
Use of money and property	7,063	23,928	2,619	37	42	165	2,241	495	39
Miscellaneous	-	-	-	2,238	-	-	6,761	600	1,054
Total revenues	1,874,352	1,108,260	465,209	2,275	42	165	22,835	1,595	1,093
Expenditures:									
Operating:									
Community & econ development	214,645	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	2,565	-	-	19,344	16,440	6,332
Total expenditures	214,645	-	-	2,565	-	-	19,344	16,440	6,332
Excess (deficiency) of revenues over (under) expenditures	1,659,707	1,108,260	465,209	(290)	42	165	3,491	(14,845)	(5,239)
Other financing sources (uses):									
Operating transfer in	100,000	-	-	-	-	-	-	-	-
Operating transfer (out)	(1,493,338)	(1,068,870)	(465,209)	-	-	-	-	(25,083)	-
Total other financing sources (uses)	(1,393,338)	(1,068,870)	(465,209)	-	-	-	-	(25,083)	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	266,369	39,390	-	(290)	42	165	3,491	(39,928)	(5,239)
Fund balances beginning of year	(342,584)	588,306	-	1,550	1,052	4,367	59,718	47,041	5,239
Fund balances end of year	\$ (76,215)	627,696	-	1,260	1,094	4,532	63,209	7,113	-

See accompanying independent auditor's report.



Schedule 2

Special Revenue Funds						Permanent Funds		
Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie-Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
-	-	-	-	-	-	-	-	459,358
-	-	-	-	-	-	-	-	1,867,289
-	-	-	-	-	-	-	-	984,332
-	-	-	-	-	-	-	-	103,232
-	-	9,237	-	-	-	-	-	23,570
240	4,602	310	135	778	1,939	2,943	4,381	51,957
8,404	-	-	-	13,404	-	-	-	32,461
8,644	4,602	9,547	135	14,182	1,939	2,943	4,381	3,522,199
-	-	-	-	-	-	-	-	214,645
10,468	-	-	-	7,634	-	-	-	62,783
10,468	-	-	-	7,634	-	-	-	277,428
(1,824)	4,602	9,547	135	6,548	1,939	2,943	4,381	3,244,771
-	-	-	-	-	-	-	-	100,000
-	-	-	-	-	(19,282)	-	-	(3,071,782)
-	-	-	-	-	(19,282)	-	-	(2,971,782)
(1,824)	4,602	9,547	135	6,548	(17,343)	2,943	4,381	272,989
24,985	110,420	23,828	15,186	28,734	52,605	59,255	105,209	784,911
23,161	115,022	33,375	15,321	35,282	35,262	62,198	109,590	1,057,900

CITY OF PELLA, IOWA  
COMBINING BALANCE SHEET  
TAX INCREMENT FINANCING  
June 30, 2007

	Bos Landen	High Point	Pella Business Corridor	Total
<b>Assets</b>				
Cash and pooled investments	\$ 311,878	-	3,073	314,951
Receivables:				
Tax increment financing:				
Delinquent	5,043	-	1,659	6,702
Succeeding year tax increment financing	593,906	102,262	1,282,871	1,979,039
Accrued interest	310	-	-	310
<b>Total assets</b>	<b>\$ 911,137</b>	<b>102,262</b>	<b>1,287,603</b>	<b>2,301,002</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Deferred Revenue:				
Succeeding year tax increment financing	\$ 593,906	102,262	1,282,871	1,979,039
Interfund payable	-	106,669	291,509	398,178
Total liabilities	\$ 593,906	208,931	1,574,380	2,377,217
Fund balances:				
Special purposes	317,231	(106,669)	(286,777)	(76,215)
<b>Total liabilities and fund balances</b>	<b>\$ 911,137</b>	<b>208,931</b>	<b>1,579,112</b>	<b>2,301,002</b>

See accompanying independent auditor's report.

CITY OF PELLA, IOWA  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 TAX INCREMENT FINANCING  
 Year ended June 30, 2007

	Bos Landen	High Point	Pella Business Corridor	Total
Revenues:				
TIF revenues	\$ 567,911	101,591	1,197,787	1,867,289
Use of money and property	1,904	865	4,294	7,063
Total revenues	569,815	102,456	1,202,081	1,874,352
Expenditures:				
Community & econ development	3,794	3,229	207,622	214,645
Total expenditures	3,794	3,229	207,622	214,645
Excess of revenues over expenditures	566,021	99,227	994,459	1,659,707
Other financing sources (uses):				
Operating transfer in	100,000	-	-	100,000
Operating transfer (out)	(398,408)	(205,897)	(889,033)	(1,493,338)
Total other financing uses	(298,408)	(205,897)	(889,033)	(1,393,338)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	267,613	(106,670)	105,426	266,369
Fund balances beginning of year	49,618	1	(392,203)	(342,584)
Fund balances end of year	\$ 317,231	(106,669)	(286,777)	(76,215)

See accompanying independent auditor's report.

CITY OF PELLA, IOWA  
 COMBINING SCHEDULE OF NET ASSETS  
 PROPRIETARY FUND TYPE-ENTERPRISE  
 June 30, 2007

	Business Type Activities Enterprise Funds				
	Water	Wastewater	Electric	Sanitation	Totals
<b>Assets</b>					
Current assets:					
Cash and pooled investments	\$ 1,940,802	855,665	5,654,621	24,185	8,475,273
Receivables:					
Accrued interest	26,835	13,376	94,565	302	135,078
Trade (net of allowance for uncollectible)	181,495	175,533	1,385,219	44,537	1,786,784
Inventories	117,645	106,775	715,050	-	939,470
Prepaid expenses	-	-	91,885	-	91,885
Total current assets	2,266,777	1,151,349	7,941,340	69,024	11,428,490
Non-current assets:					
Restricted assets (cash and pooled investments)	460,000	447,300	3,582,461	-	4,489,761
Deferred charge (issuance costs)	47,508	51,582	132,316	-	231,406
Capital assets:					
Land, wastewater rights, and infrastructure	118,360	907,049	550,724	-	1,576,133
Depreciable buildings, property, equipment and infrastructure, net	8,028,769	11,535,598	44,629,273	-	64,193,640
Total non-current assets	8,654,637	12,941,529	48,894,774	-	70,490,940
<b>Total assets</b>	<b>\$10,921,414</b>	<b>14,092,878</b>	<b>56,836,114</b>	<b>69,024</b>	<b>81,919,430</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 106,371	29,098	1,246,549	35,583	1,417,601
Salaries and benefits payable	24,564	15,694	72,860	1,322	114,440
Deposits	-	-	73,313	-	73,313
Accrued interest payable	13,691	17,126	59,812	-	90,629
Compensated absences payable	36,880	27,743	101,344	1,928	167,895
Long-term debt - due within one year:					
General obligation bonds payable	-	115,000	-	-	115,000
Revenue bonds payable	360,000	208,000	1,245,000	-	1,813,000
Total current liabilities	541,506	412,661	2,798,878	38,833	3,791,878
Long-term liabilities (net of current portion):					
Compensated absences payable	52,240	36,320	96,281	192	185,033
General obligation bonds payable (net of unamortized discount)	-	961,427	-	-	961,427
Revenue bonds payable (net of unamortized discount)	2,956,800	3,636,000	16,932,832	-	23,525,632
Total long-term liabilities	3,009,040	4,633,747	17,029,113	192	24,672,092
<b>Total liabilities</b>	<b>3,550,546</b>	<b>5,046,408</b>	<b>19,827,991</b>	<b>39,025</b>	<b>28,463,970</b>

CITY OF PELLA, IOWA  
 COMBINING SCHEDULE OF NET ASSETS  
 PROPRIETARY FUND TYPE-ENTERPRISE  
 June 30, 2007

	Business Type Activities Enterprise Funds				Totals
	Water	Wastewater	Electric	Sanitation	
<i>Continued from previous page</i>					
<b>Net Assets</b>					
Invested in capital assets, net of related debt	4,830,329	7,522,220	27,002,165	-	39,354,714
Restricted for debt service	460,000	447,300	2,009,148	-	2,916,448
Restricted for improvements	-	-	1,500,000	-	1,500,000
Restricted other	-	-	73,313	-	73,313
Unrestricted	2,080,539	1,076,950	6,423,497	29,999	9,610,985
<b>Total net assets</b>	<b>\$ 7,370,868</b>	<b>9,046,470</b>	<b>37,008,123</b>	<b>29,999</b>	<b>53,455,460</b>

See accompanying independent auditor's report.

CITY OF PELLA, IOWA  
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUND TYPE-ENTERPRISE  
 June 30, 2007

	Business Type Activities Enterprise Funds				
	Water	Wastewater	Electric	Sanitation	Totals
Operating revenues:					
Charges for service	\$ 1,920,887	1,469,779	15,315,351	514,505	19,220,522
Total operating revenues	1,920,887	1,469,779	15,315,351	514,505	19,220,522
Operating expenses:					
Personnel services	682,207	484,374	2,130,982	39,819	3,337,382
Contractual	90,442	47,504	-	404,762	542,708
Franchise fees	47,935	29,343	-	-	77,278
Materials and supplies	505,338	550,242	5,969,992	32,792	7,058,364
Purchased power	-	-	3,830,615	-	3,830,615
Payments in lieu of taxes	-	-	470,198	-	470,198
Payments in lieu of services	-	-	65,520	-	65,520
Depreciation	445,467	763,361	1,038,162	-	2,246,990
Total operating expenses	1,771,389	1,874,824	13,505,469	477,373	17,629,055
Operating income (loss)	149,498	(405,045)	1,809,882	37,132	1,591,467
Non-operating revenues (expenses):					
Debt costs and interest	(245,920)	(224,988)	(154,966)	-	(625,874)
Interest Income	150,852	62,484	550,688	1,312	765,336
Rent	21,600	12,537	-	-	34,137
Sales of fixed assets & SO2 Credits	-	4,001	35,641	-	39,642
Miscellaneous	14,401	19,125	29,529	9,748	72,803
Net non-operating revenues (expenses)	(59,067)	(126,841)	460,892	11,060	286,044
Income (loss) before contributions & transfers	90,431	(531,886)	2,270,774	48,192	1,877,511
Capital Contributions-assets	92,682	37,428	-	-	130,110
Transfers in		90,000	-	-	90,000
Transfers (out)	(18,301)	(18,301)	(18,301)	(54,453)	(109,356)
Net contributions & transfers	74,381	109,127	(18,301)	(54,453)	110,754
Change in net assets	164,812	(422,759)	2,252,473	(6,261)	1,988,265
Net assets beginning of year, as restated	7,206,056	9,469,229	34,755,650	36,260	51,467,195
Net assets end of year	\$ 7,370,868	9,046,470	37,008,123	29,999	53,455,460

See accompanying independent auditor's report.

CITY OF PELLA, IOWA  
 COMBINING SCHEDULE OF CASH FLOWS  
 PROPRIETARY FUND TYPE-ENTERPRISE  
 Year ended June 30, 2007

	Business Type Activities Enterprise Funds				
	Water	Wastewater	Electric	Sanitation	Total
Cash flows from operating activities:					
Cash received from customers	\$ 1,927,497	1,457,472	15,408,276	508,068	19,301,313
Cash payments to employees for services	(671,392)	(481,203)	(2,113,578)	(39,726)	(3,305,899)
Cash payments for goods and services	(692,930)	(608,243)	(9,902,394)	(431,613)	(11,635,180)
Replacement tax, transfers	-	-	(470,198)	-	(470,198)
Net cash provided by operating activities	563,175	368,026	2,922,106	36,729	3,890,036
Cash flows from non-capital financing activities:					
Miscellaneous receipts	36,001	31,662	29,529	9,748	106,940
Transfers in	-	90,000	-	-	90,000
Transfers out	(18,301)	(18,301)	(18,301)	(54,453)	(109,356)
Net cash provided (used) by non-capital financing activities	17,700	103,361	11,228	(44,705)	87,584
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(350,528)	(55,367)	(6,372,200)	-	(6,778,095)
Construction of capital assets (capitalized interest)	-	-	(624,886)	-	(624,886)
Principal paid on long-term debt	(345,000)	(202,000)	(1,005,000)	-	(1,552,000)
Early debt retirement	(70,000)	-	-	-	(70,000)
Proceeds of refunding bonds	2,540,000	-	-	-	2,540,000
Payments with refunding bonds	(2,540,000)	-	-	-	(2,540,000)
Interest costs (not capitalized)	(198,143)	(218,067)	(130,560)	-	(546,770)
Other long-term debt costs	(53,995)	(2,513)	(1,200)	-	(57,708)
Proceeds from sale of capital assets & SO2 credits	-	4,001	35,641	-	39,642
Net cash provided (used) by capital and related financing activities	(1,017,666)	(473,946)	(8,098,205)	-	(9,589,817)
Cash flows from investing activities:					
Proceeds (to) from investments	(1,050,053)	(635,501)	(2,139,263)	(9,961)	(3,834,778)
Investment income	134,188	53,414	511,398	1,232	700,232
Net cash provided (used) by investing activities	(915,865)	(582,087)	(1,627,865)	(8,729)	(3,134,546)
Net increase (decrease) in cash and cash equivalents	(1,352,656)	(584,646)	(6,792,736)	(16,705)	(8,746,743)
Cash and cash equivalents at beginning of year	1,902,904	965,204	9,508,566	20,087	12,396,761
Cash and cash equivalents at end of year	\$ 550,248	380,558	2,715,830	3,382	3,650,018
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ 149,498	(405,045)	1,809,882	37,132	1,591,467
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	445,467	763,361	1,038,162	-	2,246,990
Change in assets and liabilities:					
Decrease (increase) in receivables	6,610	(12,307)	94,718	(6,437)	82,584
Decrease (increase) in inventory	(3,775)	11,523	(114,223)	-	(106,475)
(Increase) in prepaid expense	-	-	(91,885)	-	(91,885)
Increase (decrease) in accounts payable	(45,440)	7,323	169,841	5,941	137,665
Increase in accrued expenses	5,549	1,790	8,409	118	15,866
Increase (decrease) in compensated absences	5,266	1,381	8,995	(25)	15,617
(Decrease) in deposits held	-	-	(1,793)	-	(1,793)
Total adjustments	413,677	773,071	1,112,224	(403)	2,298,569
Net cash provided by operating activities	\$ 563,175	368,026	2,922,106	36,729	3,890,036

CITY OF PELLA, IOWA  
 COMBINING SCHEDULE OF CASH FLOWS  
 PROPRIETARY FUND TYPE-ENTERPRISE  
 Year ended June 30, 2007

	Business Type Activities Enterprise Funds				
	Water	Wastewater	Electric	Sanitation	Total
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the combining balance sheet:</b>					
Current assets:					
Cash and pooled investments	\$ 1,940,802	855,665	5,654,621	24,185	8,475,273
Restricted assets:					
Cash and pooled investments:					
Water bond reserve	460,000	-	-	-	460,000
Wastewater bond reserve	-	447,300	-	-	447,300
Electric bond reserve	-	-	2,009,148	-	2,009,148
Electric improvement reserve	-	-	1,500,000	-	1,500,000
Customer deposits	-	-	73,313	-	73,313
	460,000	447,300	3,582,461	-	4,489,761
Total cash and pooled investments	2,400,802	1,302,965	9,237,082	24,185	12,965,034
Less items not meeting definition of cash equivalent:					
Certificates of deposit	(1,813,510)	(903,942)	(6,390,712)	(20,387)	(9,128,551)
Iowa Public Agency Investment Trust	(37,044)	(18,465)	(130,540)	(416)	(186,465)
	(1,850,554)	(922,407)	(6,521,252)	(20,803)	(9,315,016)
Cash and cash equivalents at end of year	\$ 90,248	(66,742)	(866,631)	3,382	(839,743)
<b>Non-cash investing, capital and financing activities:</b>					
Current issuance cost expense, prior cash outlay	\$ 18,291	4,412	13,946	-	36,649
Current discount amortization, prior cash outlay	26,670	1,050	12,402	-	40,122
Contributions of capital assets from developer/government	92,682	37,428	-	-	130,110
Acquisition of capital assets through developer/government contrib.	(92,682)	(37,428)	-	-	(130,110)

See accompanying independent auditor's report.



CITY OF PELLA, IOWA  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST SIX YEARS

	Modified Accrual Basis					
	2007	2006	2005	2004	2003	2002
Revenues:						
Property tax	\$ 2,792,009	2,778,762	2,722,753	2,837,958	2,794,278	2,605,151
Tax increment financing revenue	1,867,289	1,675,567	1,672,240	1,444,657	1,069,118	732,375
Local option sales tax	984,332	1,000,702	813,900	851,409	908,915	424,448
Other city tax	499,706	394,645	366,366	367,213	384,797	323,714
Licenses and permits	21,369	27,320	30,033	20,427	14,558	14,351
Use of money and property	177,215	178,192	151,017	120,419	99,101	170,331
Intergovernmental	1,519,012	1,438,435	1,686,186	1,687,032	2,009,076	1,974,034
Special assessments	44,124	-	-	-	-	2,588
Charges for service	340,054	377,208	353,694	251,492	310,852	307,930
Miscellaneous	406,459	277,790	183,838	516,042	289,876	752,519
Total	<u>\$ 8,651,569</u>	<u>8,148,621</u>	<u>7,980,027</u>	<u>8,096,649</u>	<u>7,880,571</u>	<u>7,307,441</u>
Expenditures:						
Operating:						
Public safety	\$ 1,411,218	1,401,296	1,338,999	1,148,456	1,098,202	1,088,566
Public works	1,010,058	911,054	951,204	918,075	1,524,769	1,659,514
Culture and recreation	1,585,354	1,532,929	1,516,237	1,491,734	1,412,690	1,973,083
Community and economic development	541,534	506,050	601,903	262,752	86,560	237,300
General government	339,003	336,511	338,399	666,256	718,703	940,854
Debt service	1,706,474	4,092,597	1,795,402	1,743,005	3,881,721	1,400,224
Capital projects	2,217,218	1,446,816	668,144	3,205,314	367,781	894,029
Total	<u>\$ 8,810,859</u>	<u>10,227,253</u>	<u>7,210,288</u>	<u>9,435,592</u>	<u>9,090,426</u>	<u>8,193,570</u>

See accompanying independent auditor's report.

**CITY OF PELLA, IOWA**

**Van Maanen  
& ASSOCIATES, P.C.**

**Certified Public Accountants**

705 Main St.  
Pella, IA 50219  
641-628-3737

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 12, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pella's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Pella's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and another deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Pella's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the City of Pella's financial statements that is more than inconsequential will not be prevented or detected by the City of Pella's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Pella's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pella's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Pella's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Pella's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pella and other parties to whom the City of Pella may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

November 12, 2007

CITY OF PELLA, IOWA  
SCHEDULE OF FINDINGS  
Year ended June 30, 2007

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

II-A-07      Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Currently the same employees that handle cash and deposits also have software access to the receipts module.

Recommendation - We recommend that those employees who handle cash receipts do not also have access to that area of the accounting records.

Response - We will work to maintain the best possible control with the personnel available.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE**

No matters were reported.

**Part III: Findings and Questioned Costs for Federal Awards:**

Not applicable since less than \$500,000 in Federal Awards.

CITY OF PELLA, IOWA

SCHEDULE OF FINDINGS

Year ended June 30, 2007

**Part IV: Other Findings Related to Required Statutory Reporting:**

- IV-A-07     Certified Budget - Expenditures for the year ended June 30, 2007, exceeded the budget in the public works, community and economic development and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future.

Conclusion - Response accepted.

- IV-B-07     Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-C-07     Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- IV-D-07     Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2007 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member Stockholder of Eagle Electric, Inc.	Electrical work	\$437
Mark De Jong, Council Member Owner De Jong Greenhouse	Replacement tulip bulbs	\$900

There were no related payables at June 30, 2007.

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Members do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

- IV-E-07     Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

- IV-F-07     Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF PELLA, IOWA

SCHEDULE OF FINDINGS

Year ended June 30, 2007

IV-G-07     Council Minutes - Published minutes did not include the purpose of the expenditure, total disbursements by fund, and a summary of receipts.

Recommendation - The purpose of expenditures should be included in the published minutes.

Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. The system does not have the capability to print a report that summarizes our description into one word for publication purposes. We will investigate our ability to include the other information.

Conclusion - Response accepted.

IV-H-07     Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.

IV-I-07     Financial Condition - The Special Revenue Fund, Tax Increment Financing, Pella Business Corridor account had a deficit balance at June 30, 2007, of \$286,777. The Special Revenue Fund, Tax Increment Financing, High Point account had a deficit balance at June 30, 2007 of \$106,669.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response - The deficit in the Pella Business Corridor account is due to an interfund payable to the Road Use Fund of \$291,508. The deficit in the High Point account is due to an interfund payable to the Capital Projects Fund of \$106,669. We anticipate these payables will be paid back with future TIF revenues.

Conclusion - Response accepted.